



Virginia Employment Commission *report to*

House Commerce and Labor Committee

Dolores Esser, Commissioner
Virginia Employment Commission

January 10, 2008



Virginia Employment Commission

- State agency that is federally funded – VEC receives no general fund revenues
- VEC administers five major programs, each of which has its own discrete funding stream
 - Unemployment Insurance
 - Job Service
 - Trade Act
 - Veterans Services
 - Labor Market Information



VEC Administrative Funding

- ➡ Employers pay a FUTA tax to the Internal Revenue Service.
(FUTA is the Federal Unemployment Tax Act.)
- ➡ FUTA is a flat tax of 0.8% on first \$7,000 of each employee's wages, which costs \$56 per employee per year.



VEC Administrative Funding (*continued*)

- Revenue from the FUTA tax is used to pay for SESA (State Employment Security Agency) administration at both the state and national levels.
- Virginia's employers paid over \$205 million in FUTA taxes in FY 2006.
- VEC received about \$56 million from U.S. DOL in FY 2006.



Unemployment Insurance

- ➔ Unemployment insurance is a social insurance program designed to provide temporary income support to eligible individuals who are unemployed through no fault of their own. UI is not an entitlement, but a program founded upon and operated in accordance with insurance principles.



Unemployment Insurance in the United States

- Created by the Social Security Act of 1935
- Established as a federal-state partnership
- The federal government enacted broad requirements that each state must meet (conformity requirements) and collects a payroll excise tax to fund program administration
- States establish individual programs with their own benefit levels, eligibility requirements, and taxing mechanisms



UI Benefits

→ Benefits are paid to workers unemployed through no fault of their own.

→ Benefit levels:

→ Minimum weekly benefit

- \$50 (July 1999)
- \$69 (Sept. 9, 2001 – Jan. 4, 2003)
- \$59 (Jan. 5, 2003 – July 5, 2003)
- \$50 (July 6, 2003)
- \$54 (July 2005)

→ 151 claimants at minimum through November 2007

→ Maximum weekly benefit

- \$268 (Nov. 28, 1999)
- \$368 (Sept. 9, 2001 – Jan. 4, 2003)
- \$318 (Jan. 5, 2003 – July 5, 2003)
- \$316 (July 6, 2003 – July 3, 2004)
- \$326 (July 4, 2004)
- \$330 (July 3, 2005)
- \$347 (July 2, 2006)
- \$363 (July 1, 2007)

→ 35,637 claimants at maximum through November 2007

→ Average weekly benefit amount - \$262



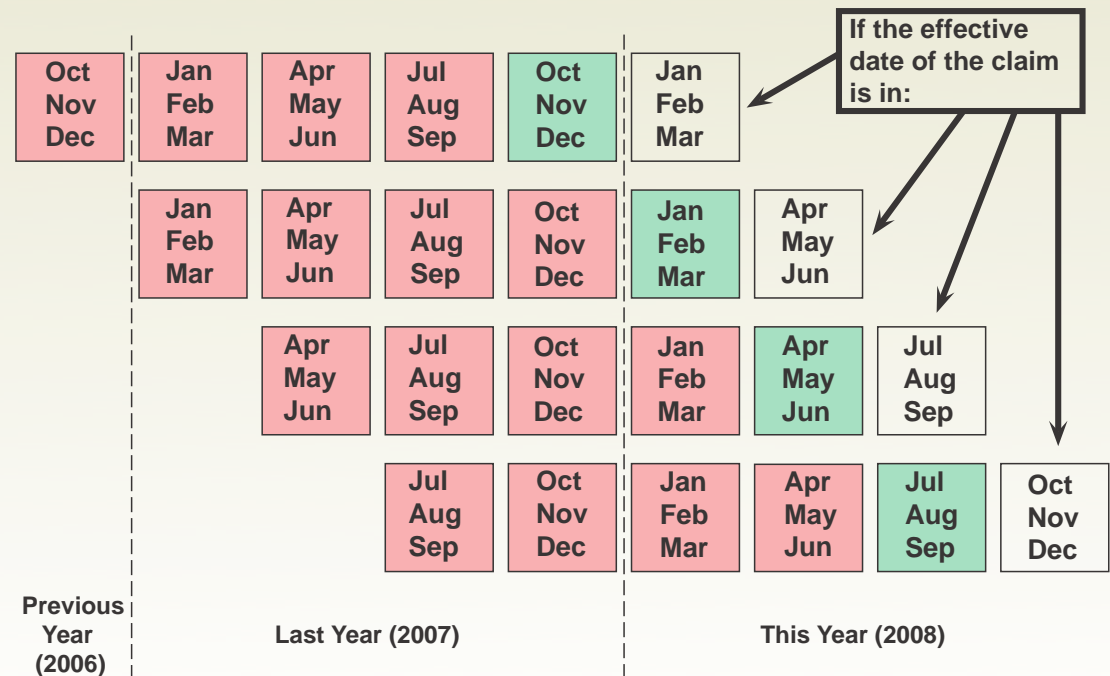
UI Benefits

- Benefits determined by earnings in the first 4 of last 5 completed quarters. This is called the **base period**.
- Effective July 6, 2003, for those claimants who do not qualify under the standard base period, **alternate base period**, consisting of the 4 most recent quarters, is used to determine eligibility.
- Eligible claimants are not paid for the first week of unemployment. This is called the **waiting week**.

BASE PERIOD EXPLAINED

Base Period Shown by Red Months

Lag Quarter Used for Alternative Base Period Shown by Green Months





UI Taxes

- Taxes are paid by employers to the VEC on the first \$8,000 of each employee's wages.
- Taxes deposited in the UI Trust Fund.
- Tax rates:
 - Minimum tax for 2007 is 0.17%, or \$13.60 per employee.
 - ⇒ 112,000 employers, or 63% of employers
 - Maximum tax for 2007 is 6.27%, or \$501.60 per employee.
 - ⇒ 6,550 employers, or 3.7% of employers
 - Average tax per employee is \$128.



UI Taxes

- Individual employer's tax rate based on:
 - Trust Fund solvency level that determines which of 15 tax tables is used.
 - Employer's experience over last 4 years.
- Two surtaxes can also be levied:
 - Pool tax used to recover benefits that cannot be charged to a specific employer.
 - Fund-building tax used when solvency falls below 50%.



Trust Fund Solvency Adequate Fund Balance

- Solvency = $1.38 \times \text{Average Cost Rate} \times \text{Wages}$.
- 1.38 represents 16.5 months of benefits with no revenue.
- Average Cost Rate is the average of 3 highest ratios of benefits to total wages in the past 20 years.
- Wages are total wages paid by taxable employers for the year ending June 30.
- Solvency Level = $\text{June 30 balance} \div \text{Adequate Fund Balance}$.



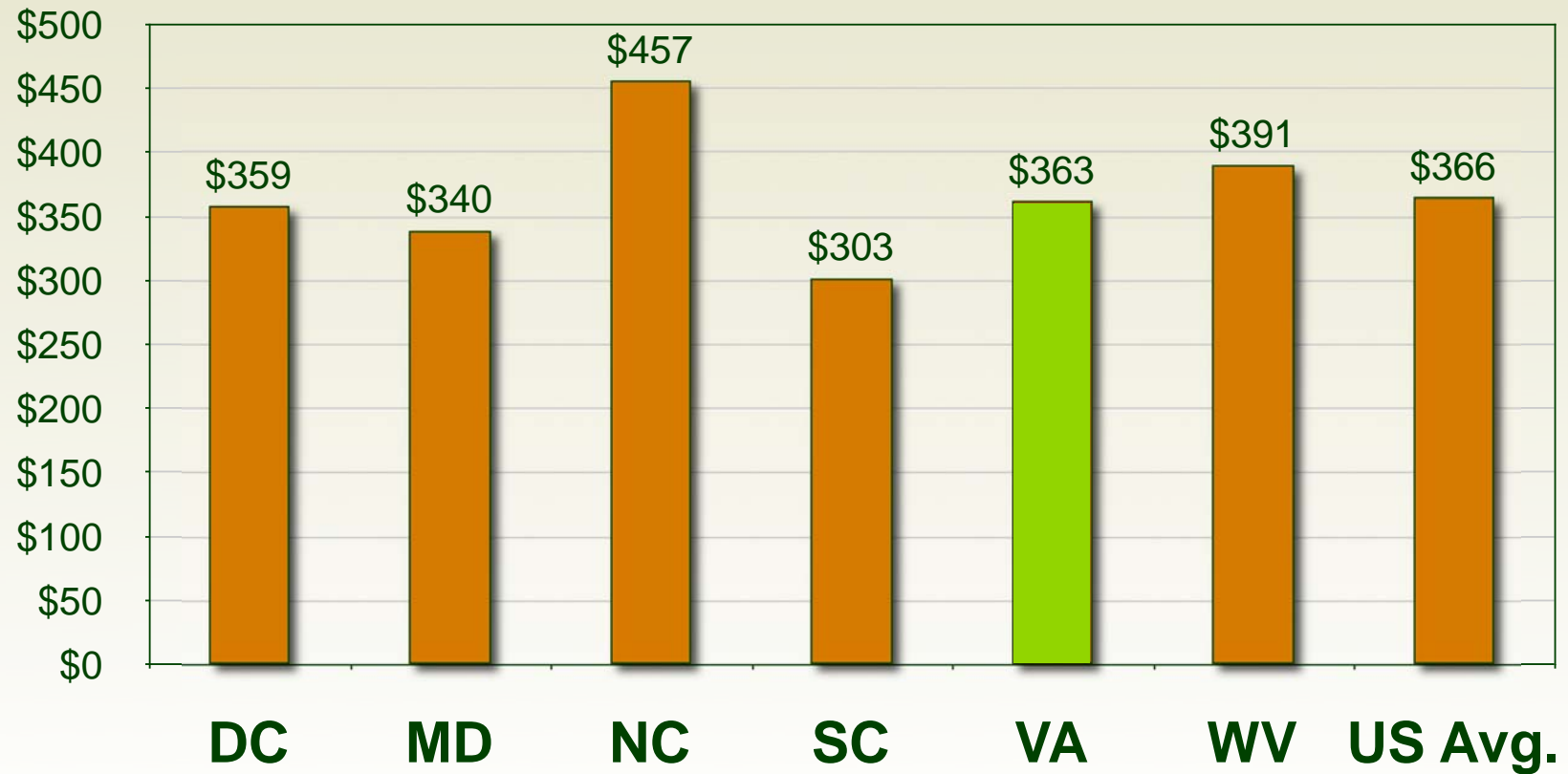
UI Fact Sheet

| | 2006 (YTD Nov.) | 2007 (YTD Nov.) |
|---------------------------|-----------------|-----------------|
| Total Claims | 229,544 | 229,812 |
| Total Benefits Paid | \$320 million | \$349 million |
| Average Duration (weeks) | 12.5 | 12.5 |
| State UI Taxes Collected | \$530 million | \$416 million |
| Average Tax per Employee* | \$152 | \$128 |
| Trust Fund Balance | \$665 million | \$730 million |

*Year ending 3/31/06 and 3/31/07

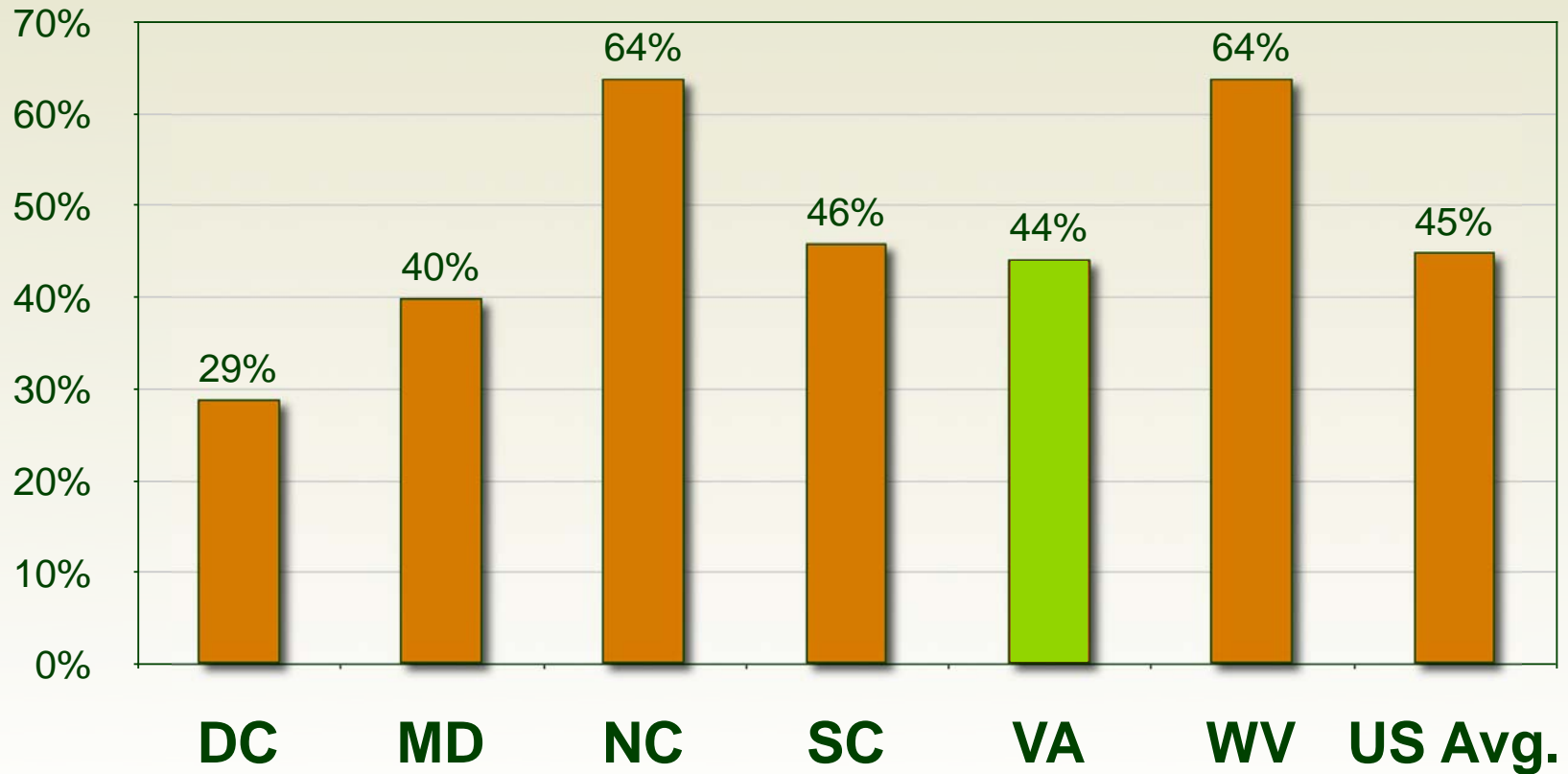


2007 Maximum Weekly Benefit Fourth Circuit





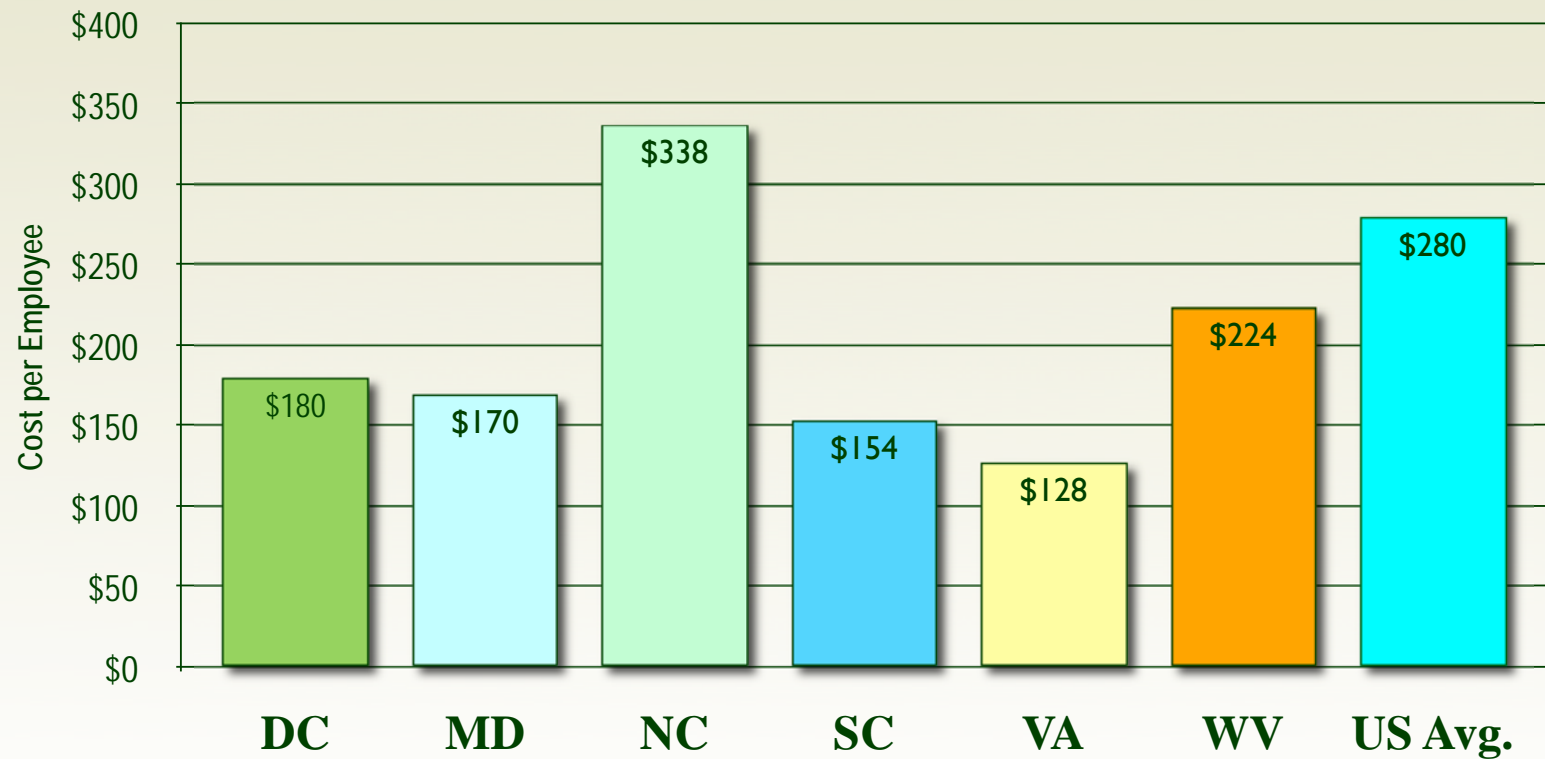
2007 Maximum Weekly Benefit Replacement Rate Fourth Circuit





Average Tax per Employee

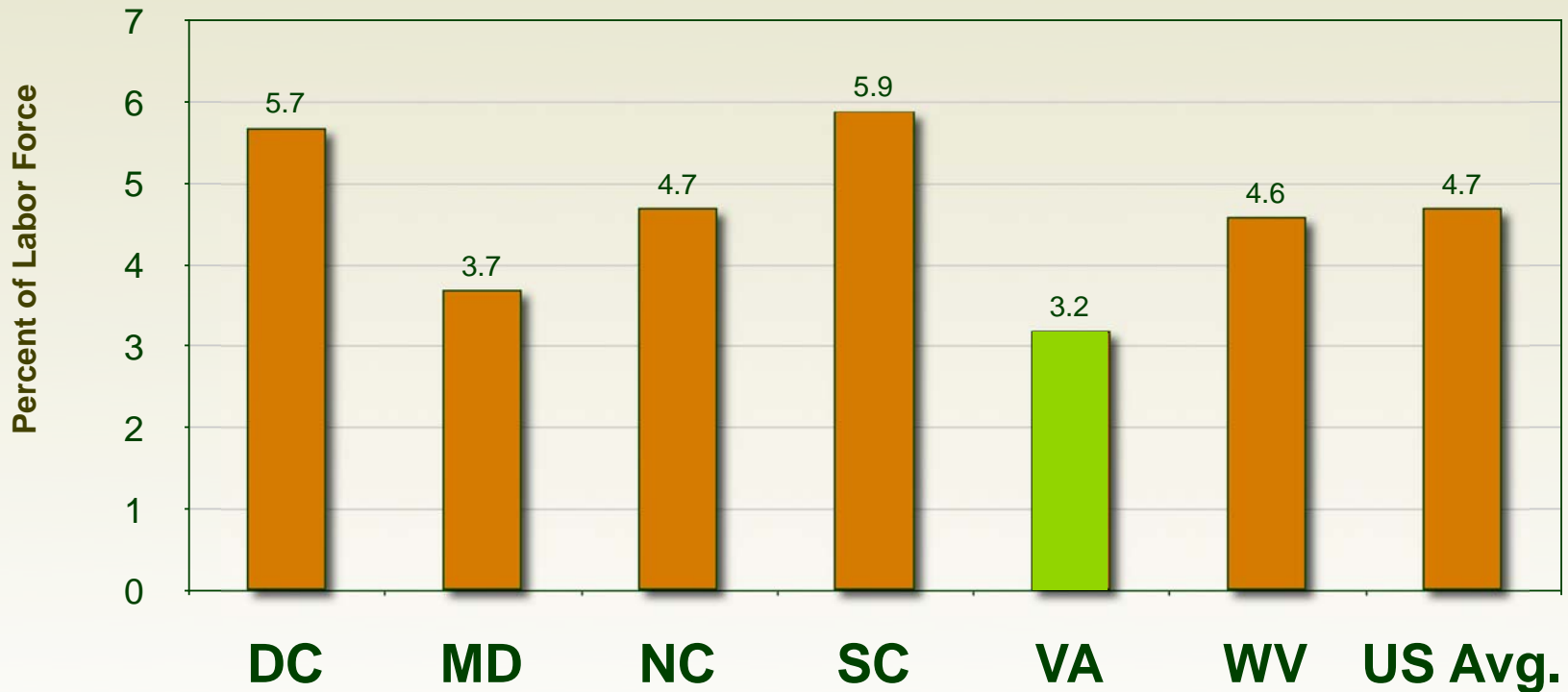
Fourth Circuit – Year ending 3/31/07





November 2007 Unemployment Rates

Fourth Circuit



Note: Seasonally Adjusted Rates



Questions?

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